EXHIBIT ML-1

REGULATORY EXPERIENCE

Mark Lancaster
Regulatory Experience

YEAR	DESCRIPTION
1993	Missouri Docket No. TR.-93-268 - In the Matter of the Application of Citizens Telephone Company of Higginsville, Missouri, Inc. for Authority to File, Establish, and Put into Effect New, Increased, or Revised Rates and Charges for Telephone Service. (Direct, Rebuttal and Surrebuttal)
1994	Arkansas Docket No. 86-160-U - In the Matter of Those Elements of the Intrastate Access Charges Maintained at Parity with Interstate Access. (Rebuttal and Surrebuttal)
1995	Arkansas Docket No. 94-301-U - In the Matter of an Earnings Review of GTE Arkansas, Inc. (Rebuttal and Surrebuttal)
1995	Arkansas Docket No. 95-310-U - In the Matter of an Investigation of Allegations of IntraLATA Blocking. (Direct and Rebuttal)
1995	Arkansas Docket No. 95-528-U - In the Matter of the Issue of Competition for IntraLATA Toll Transmission. (Sponsored AT&T Comments and Reply Comments)
1996	Arkansas Docket No. 86-159-U - In the Matter of the Non-Traffic Sensitive Elements of Intrastate Access Charges and Carrier Common Line and Universal Service Fund Tariffs of the Local Exchange Telephone Companies. (Sponsored AT&T Comments and Reply Comments)
1996	Texas PUC Docket No. 14658, SOAH Docket No. 473-95-1209 - Applications of Southwestern Bell Telephone Company, GTE Southwest, Inc. and Contel of Texas, Inc. for Approval of Flat-Rated Local Exchange Resale Tariffs Pursuant to PURA 1995 Section 3.2532. (Direct)

1996	Texas PUC Docket No. 16226, - Petition of AT&T Communications of the Southwest, Inc. for Compulsory Arbitration to Establish an Interconnection Agreement Between AT&T and Southwestern Bell Telephone Company. (Direct)
1996	Oklahoma Cause No. PUD 960000218, - Application of AT&T Communications of the Southwest, Inc. for Compulsory Arbitration of Unresolved Issues with Southwestern Bell Telephone Company Pursuant to §252(b) of the Telecommunications Act of 1996. (Direct and Rebuttal)
1996	Missouri Case No. TO-97-40, - In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Southwestern Bell Telephone Company. (Direct and Rebuttal)
1996	Oklahoma Cause No. PUD 960000242, - Application of AT&T Communications of the Southwest, Inc. for Compulsory Arbitration of Unresolved Issues with GTE Southwest Incorporated Pursuant to §252(b) of the Telecommunications Act of 1996. (Direct and Rebuttal)
1996	Missouri Case No. TO-97-63, - In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with GTE Midwest Incorporated. (Direct)

EXHIBIT ML-2

DESCRIPTION OF INP SOLUTIONS

Descriptions of INP Solutions

1. REMOTE CALL FORWARDING

Remote Call Forwarding (RCF) is an existing software defined feature of the central office (CO) switch which allows a call to a telephone number to actually ring to another telephone number, as programmed by the LEC. A call to a ported number is first routed to the incumbent LEC CO (from which service was previously provided), translated by that switch to the new number (assigned by the alternate carrier), and routed through the access tandem (AT) switch to the new entrant CO for termination. This method requires the use of two (2) directory numbers. This solution is intended primarily for single-line applications, and is best applied to residential use. RCF is illustrated in **Figure 1**, below.

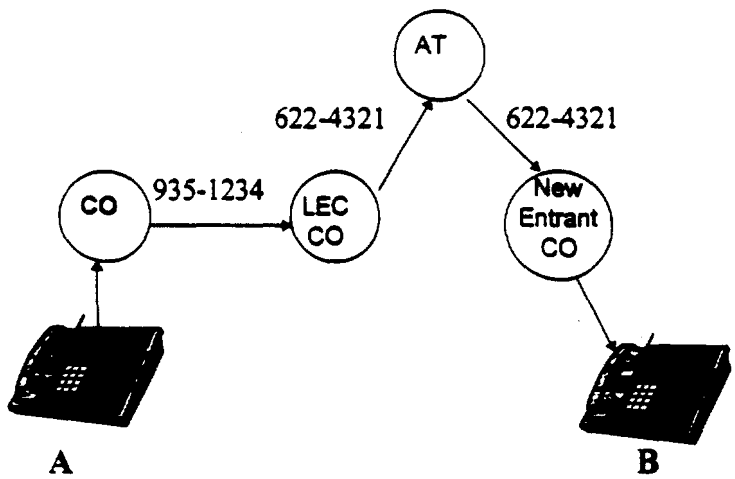


Figure 1 - Remote Call Forwarding

2. ROUTE INDEX-PORTABILITY HUB (RI-PH)

Route Index-Portability Hub (RI-PH) is a call routing approach which uses existing incumbent LEC switching capabilities to redirect calls, through an access tandem switch, to the new entrant switch.

RI-PH routes calls through the incumbent LEC Access Tandem (AT) switch. AT&T's network design for local service generally connects the AT&T CO to the incumbent LEC AT. This allows AT&T to exchange incumbent LEC traffic at a single point (the AT), before interconnecting with AT&T's CO. Such an approach is likely for most new entrants. Consequently, AT&T prefers INP solutions, such as RI-PH, which incorporate the efficiency of an AT.

For RI-PH, the last seven digits of the dialed number are prefixed (prepended) with 1XX at the GTE CO, which identifies the new entrant to which the call is ported (e.g., in the following illustration 188-935-1234 could be the RI-PH digit sequence). The call is routed through the AT to the new entrant CO for termination. This solution is intended primarily for multi-line applications. RI-PH is illustrated in Figure 2, below.

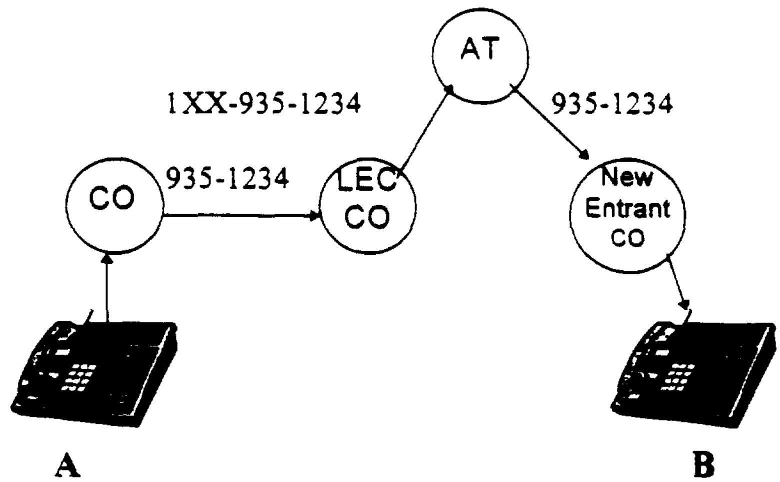


Figure 2 - Route Index - Portability Hub

3. DIRECTORY NUMBER - ROUTE INDEX

Whereas RI-PH routes calls through the AT, Directory Number-Route Index (DN-RI) routes calls directly between the GTE CO and the new entrant CO. This requires the placement of direct trunks between COs, counter to the anticipated Access Tandem point of interconnection. AT&T is not adverse to using DN-RI where direct trunks are justified, but considers it prudent to apply the most efficient Route Index solution, which more often will be RI-PH. The switching technology enabling these two features is similar. DN-RI is illustrated in Figure 3, below.

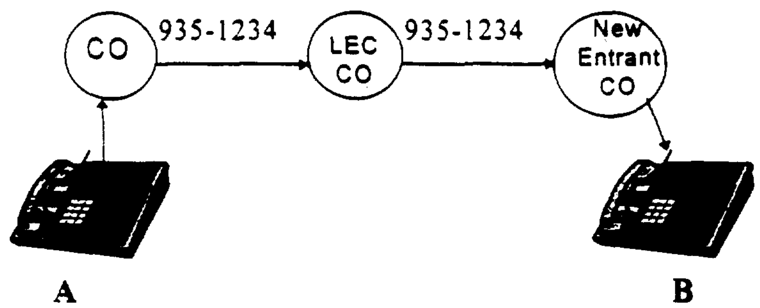


Figure 3 - Directory Number - Route Index

4. LERG REASSIGNMENT

LERG Reassignment uses the network table called the Local Exchange Routing Guide (LERG) to determine routing of geographic numbers. The LERG is managed by Bellcore, and is used by all carriers for routing instructions. LERG Reassignment enables an NXX to be routed to a specific switch other than that of the carrier to which the NXX is originally assigned.

As depicted below, the originating switch (CO) would, through a change in its routing translations (based on what is published in the LERG), effectively recognize the new entrant CO as the owner of the 512-458-0000 through -9999 number range. This solution actually transfers the default carrier of a number range from one carrier to another. LERG Reassignment is illustrated in Figure 4, below.

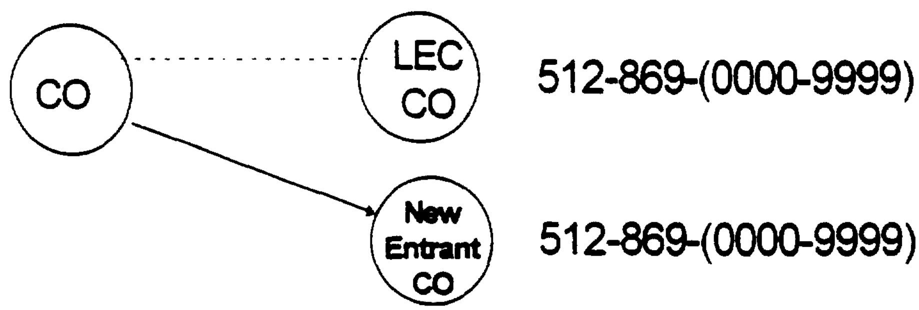


Figure 4 - Local Exchange Routing Guide (LERG) Reassignment

LERG is a fully consumer-transparent portability that produces up to 10,000 (complete NXX) numbers. LERG activities are commonplace in the local exchange environment. Anytime a new NXX is opened today, LERG activities take place and assignments are distributed to all operating units under North American Numbering Plan (NANP) authority. LERG Reassignment would only be anticipated for very large customers.

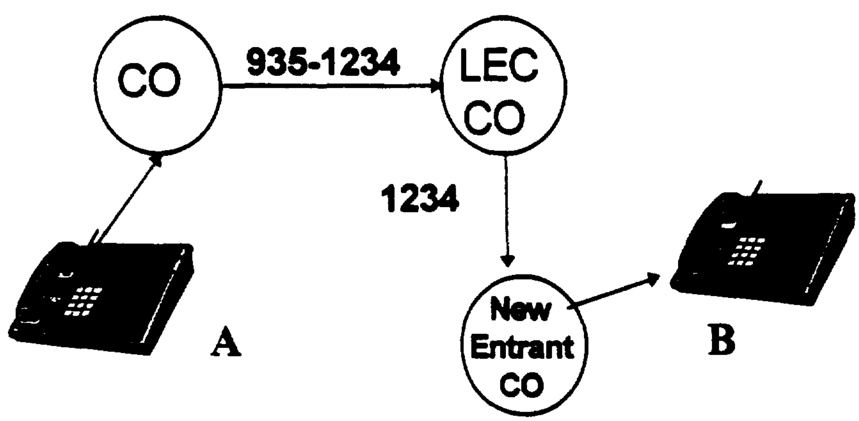
EXHIBIT ML-3

FLEXIBLE DIRECT INWARD DIALING (FLEX-DID)

Flexible Direct Inward Dialing (Flex-DID)

AT&T is not requesting the use of Flex-DID as an INP solution. However, GTE has offered Flex-DID as a solution. Therefore, for comparison purposes, the following description and depiction of Flex-DID is provided.

DID is an existing business service which provides primary LEC business customers with the ability to have calls routed directly to individual phone sets behind a Private Branch Exchange (PBX) instead of the PBX attendant. Using Flex-DID, a call to a ported number is first routed to the GTE central office (from which service was previously provided), where it is routed, using route index translations over dedicated trunks, to the new entrant central office (CO) switch for termination. Non-SS7 signaled trunks are required from the GTE CO to the new entrant CO.



D Crombie

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF ERNEST G. JOHNSON, DIRECTOR OF THE PUBLIC UTILITY DIVISION, OKLAHOMA CORPORATION COMMISSION TO EXPLORE THE REQUIREMENTS OF SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996.	§ § § § § § § §	Cause No. PUD 970000064

STATEMENT OF DENISE CROMBIE
ON BEHALF OF
AT&T COMMUNICATIONS OF THE SOUTHWEST

I. INTRODUCTION AND QUALIFICATIONS

A. Background and Duties

1. My name is Denise Crombie. I am employed by AT&T as Area Regulatory Chief Financial Officer (CFO) - Southwest Region. As Area Regulatory CFO, I have responsibility for AT&T's financial matters and for certain local exchange carrier (LEC) cost analysis functions for Arkansas, Missouri, Kansas, Oklahoma and Texas. My duties also include the analysis of state and federal statutes, rules, and orders.

B. Educational Background

2. I majored in accounting at the University of Massachusetts in Amherst, Massachusetts and graduated in 1979 with a Bachelor's Degree. In 1996, I received a Master of Science in Management Degree from Purdue University in West Lafayette, Indiana.

C. Work Experience

3. I began my career with Western Electric in 1979 as an Internal Auditor where I was responsible for conducting financial and operational audits. From 1982 through 1988, I held various line and staff positions in the AT&T Financial Operations Center where I was

responsible for accounting operations in Plant, Inventory, Lessee Accounting, and Intra-company Billing. In March of 1988, I transferred to Internal Auditing where I was responsible for conducting financial, operational, and compliance audits in AT&T Federal Systems. Effective June 1991, I accepted a position in the Financial Regulatory Matters organization with responsibility for AT&T financial regulatory matters in the southwestern states. From 1991 through 1996, I was primarily involved with the review of LEC cost information filed before the Texas Public Utility Commission or in other regulatory proceedings involving potential changes to access charges in the southwest region.

4. I have filed testimony before the Texas Public Utility Commission in Docket No. 11025. I also testified before the Oklahoma Corporation Commission (Commission) in Cause Nos. PUD 960000218 and 960000242, the Arkansas Public Service Commission in Docket Nos. 96-395-U and 94-301-U, the Missouri Public Service Commission in Case Nos. TO-97-40 and TO-97-63, and the Kansas Commission (KCC) in Docket No. 97-AT&T-290-ARB.

D. Purpose of the Statement

5. Section 272 of the Federal Telecommunications Act of 1996 (FTA) bars a Bell Operating Company (BOC) from providing in-region interLATA service unless it provides such service through a separate affiliate that operates independently from the BOC. By imposing a variety of accounting and nonaccounting safeguards, Section 272 attempts to prevent a BOC from recovering costs of an unregulated affiliate that provides services under the FTA from its local and exchange access service customers and to prevent a BOC from discriminating against its competitors in those new markets. The FTA does not call on this Commission to advise the FCC regarding whether SWBT and its Section 272 affiliate have met the numerous requirements of Section 272. However, the Section 272 requirements are relevant to this proceeding because of the integral role the Commission plays under the FTA in overseeing the audit of SWBT's

Section 272 affiliate.[1] Therefore, it is very important for the Commission to review independently SWBT's compliance with Section 272 and the accounting procedures required to provide adequate and timely information.

6. The purpose of my statement is to discuss the burden the FTA places on SWBT to comply with Section 272 through concrete evidence, not mere promises. The Commission should require SWBT to present all the specific financial information necessary to ensure it is currently complying with Section 272 and it has operational accounting safeguards in place. I will also discuss the need for the Commission to impose additional accounting safeguards to ensure that SWBT and its Section 272 affiliate comply with the requirements of Section 272.

7. Specifically, my statement concludes that the Commission should require:

- SWBT's Section 272 affiliate conduct an opening audit at the time it gains interLATA authority;
- annual audits be conducted thereafter; and
- the Section 272 affiliate make quarterly financial reports available for public view including an income statement, balance sheet, and statement of cash flows.

These additional safeguards are a measured and appropriate means for the Commission to promptly identify and correct any misapplication or disregard of the Section 272 accounting standards. Likewise, the Commission should address the procedures to be adopted in the event problems or irregularities are discovered in the audit.

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[1] Section 272(d) provides that the Section 272 affiliate shall obtain and pay for a joint Federal/State audit at least every two years, conducted by an independent auditor. The results of such an audit are to be submitted to both the FCC and the State Commission.

II. THE FEDERAL ACT AND RULES

8. The FTA sets forth a series of accounting and non-accounting safeguards intended to protect customers of the BOC's local telephone service against the risk of being forced to pay costs incurred by the BOCs to provide services in competitive markets, such as in-region interLATA services. The FTA seeks to protect competition in those markets from the BOC's ability to use their existing monopoly power in local exchange services to obtain an anticompetitive advantage. Section 272 of the FTA specifically addresses safeguards for the separate affiliate as summarized in Exhibit DC-1. Central to these safeguards is the requirement, in Section 272(a), prohibiting a BOC from providing in-region interLATA service except through a separate affiliate operating independently from the BOC.[2] The Section 272 affiliate, among other things, is required to maintain separate books and records, to have separate officers, directors, and employees, and to conduct all transactions with the BOC on an arm's length basis, reducing such transactions to writing, available for public inspection. In addition, the BOC is prohibited from discriminating in favor of its Section 272 affiliate in the provision of goods, services and exchange access.

9. On December 24, 1996 the FCC issued its Accounting Safeguards Order addressing the FTA's accounting safeguards requirement.[3] The Accounting Safeguards Order prescribed the way BOCs, like SWBT, must account for transactions with Section 272 affiliates and allocate costs incurred in providing regulated and non-regulated telecommunications services. The Accounting Safeguards Order imposed on BOCs and Section 272 affiliates the

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[2] As discussed in the statement of Joseph Gillan filed with the Commission, the separate-affiliate requirements of the FTA may provide more fictional than real protection from market abuses by BOCs and their Section 272 affiliates. *See* Statement of Joseph Gillan, ¶¶52-54.

[3] *In the Matter of Implementation of the Telecommunications Act of 1996*, Accounting Safeguards Under the Telecommunications Act of 1966, Report and Order, (released Dec. 24, 1996) (Accounting Safeguards Order).

FCC's current affiliate transaction rules and cost allocation rules, Parts 32 and 64, with a number of modifications.

10. The modifications include prerequisites for transactions between a BOC and its Section 272 affiliate, including notice of the transaction on the Internet, requirements that the BOC use the prevailing price for a particular product or service to third parties, valuation methods for certain transfers, and conditions for recording affiliate transactions. The Accounting Safeguards Order is summarized in Exhibit DC-2. The Accounting Safeguards Order also directed that an audit of the affiliate is required to begin at the end of the first full year of operations, with the next audit to begin two years thereafter covering the operations of the previous two years. Accounting Safeguards Order, ¶ 203.[4]

III. SWBT HAS THE BURDEN OF ESTABLISHING SECTION 272 COMPLIANCE THROUGH TANGIBLE EVIDENCE.

11. I anticipate SWBT will attempt to establish Section 272 compliance by pledging it will meet each of the accounting and nonaccounting safeguards detailed in the FTA and in the FCC Orders. Such promises of future compliance, however, are not sufficient to meet SWBT's burden under the FTA. The FTA places on SWBT the burden of establishing, through tangible specific evidence, that its Section 272 affiliate is operating as required by the FTA with required accounting safeguards in place and operational.

12. The type of evidence presented by SWBT should include, but no be limited to:

- whether the affiliate has obtained any facilities from SWBT and, if so, on what terms;

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[4] The FCC declined to impose the following additional safeguards requested by various commentors: 1) that annual audits be conducted; 2) that the Section 272 affiliate issue quarterly financial reports available for public review; and 3) that an initial audit be conducted shortly after the Section 272 affiliate is authorized to provide interLATA services. That the FCC chose not to impose these additional safeguards, however, does not prevent the Commission from doing so, given the Commission's independent and substantial interests in this area and given that the additional safeguards plainly are consistent with, and further, the goals of the FTA.

- the extent to which the affiliate has "borrowed" the services of SWBT employees in the planning or construction of the affiliate's network;
- the nature and extent of funding of the affiliate; and
- the terms of any transactions conducted between SWBT and the affiliate.

13. Information provided by SWBT suggests it has had an affiliate in operation for some period of time, which has engaged in numerous and ongoing transactions with SWBT. Any such transactions between SWBT and its affiliate are subject to the requirements of Section 272, and SWBT should be required to establish these transactions, in fact, comply with Section 272.

14. It appears SWBT has not met the requirements of the Accounting Safeguards Order with regard to its separate affiliate. The Accounting Safeguards Order requires that, "at a *minimum*," the separate affiliate "provide a detailed written description" of transactions with SWBT and post this written description "on the Internet within 10 days of the transaction through the company's home page." Accounting Safeguards Order, ¶ 122 (emphasis added). I have attempted, without success, to locate any information on the Internet concerning transactions between SWBT and its affiliate, which I understand is named Southwestern Bell Communications Services, Inc. (SBLD).

15. Until SWBT can prove its transactions, to date, comply with the Accounting Safeguards Order, SWBT's application for interLATA authority is premature and cannot properly be evaluated. It is crucial that the Commission require proof of Section 272 compliance at the present time rather than attempting to conduct such a review after SWBT has entered the long distance market, when the Commission has substantially less effective means to enforce its directive.

IV. THE COMMISSION SHOULD REQUIRE CERTAIN LIMITED ADDITIONAL SAFEGUARDS TO PREVENT CROSS-SUBSIDIZATION.

16. The Commission should require additional safeguards to prevent SWBT from subsidizing its Section 272 affiliate with revenues from its local and exchange access services customers. The Commission plainly has authority to impose such additional accounting safeguards. Indeed, in the Accounting Safeguards Order, the FCC acknowledged the authority of state commissions to "adopt accounting rules to prevent subsidies flowing from regulated services . . . [to] services [such as interLATA service]." Accounting Safeguards Order, ¶ 45.

17. The following additional safeguards are appropriate:

- Quarterly financial reports, income statement, balance sheet, and statement of cash flows, should be available for public view on the Internet.

- Annual audits should be conducted, including an opening audit to assure appropriate procedures are in place.

The need for such additional accounting safeguards is evidenced, in part, by a 1994 federal/state joint audit report undertaken on behalf of the National Association of Regulatory Commissioners, where an audit team concluded that the "affiliates' dealings with SWBT are not in full compliance with the affiliate transactions standards." The additional affiliates created pursuant to FTA as the industry transitions to competition coupled with findings of the 1994 joint audit supports the adoption of additional affiliate transaction safeguards.

18. SWBT's Section 272 affiliate should be required to issue a separate set of financial reports consisting of an income statement, balance sheet, and statement of cash flows. These reports should be filed quarterly and be available for public review. The requirement that such quarterly reports be prepared and made public imposes only a minimal burden on the SWBT Section 272 affiliate, which presumably will be preparing reports of a similar nature for its own purposes. By requiring that such reports be made public, the Commission will provide a method

for meaningful ongoing oversight of the Section 272 affiliate's compliance with the FTA, helping to bring problems to light in a timely manner.

19. The Commission should require an opening audit where SWBT must affirmatively demonstrate, rather than simply promise, that all the required accounting safeguards are operational and in place at the time SWBT's Section 272 affiliate begins to provide interLATA long distance service in Oklahoma. In order for the open audit to have meaningful effect, the joint audit should be completed before Section 271 approval is given. This can best be accomplished by establishing a schedule for assembling the audit team and completing the audit before the date by which the state commissions are required to provide a recommendation to the FCC. If a BOC fails to arrange for and "pass" the audit prior to the date by which the State files its response with the FCC, then the recommendation should be that entry into interLATA should be denied. For example, SWBT's affiliate should be able to demonstrate that:

- detailed accounting procedures are in place between it and SWBT;
- the appropriate mapping is in place between the Part 32 accounting used by SWBT and the Generally Accepted Accounting Principles (GAAP) used by the affiliate;
- the asset allocations required by the Accounting Safeguards Order have been fairly established;
- the methods of evaluating transactions between SWBT and its Section 272 affiliate meet FCC guidelines (such as the derivation of the price to be charged by SWBT for marketing services it will provide to its affiliate) and have been fairly and accurately established; and
- the Internet transaction reporting requirement is operational.

20. Annual audits are necessary because of the inherent difficulties of discerning and correcting accounting irregularities in a timely manner. Nothing in the FTA prohibits this Commission from requiring an annual outside audit. As this industry transitions to local competition, it is crucial for the Commission to be able to accurately access the fairness of that

competition and its impact on Oklahoma ratepayers. A monopoly bottleneck can cause irreparable harm to competition through misapplication or disregard of accounting safeguards. It is far better to discover any problems or irregularities early in the process, rather than discovering such problems after they have become ingrained in the day-to-day practices of the affiliate and after competition (and hence Oklahoma ratepayers) has been irreparably harmed.

V. THE COMMISSION SHOULD ADDRESS THE PROCEDURES TO BE ADOPTED IN THE EVENT IRREGULARITIES ARE DISCOVERED IN THE AUDIT.

21. The Commission should also address procedures to be adopted in the event problems or irregularities are discovered in the audit. AT&T believes any process adopted by the Commission should allow SWBT to respond to the audit report and give the auditors an opportunity to reply to the response. However, because the passage of time exacerbates the competitive harm resulting from the accounting irregularities, these time frames should be set so the Commission can order any corrections and expect compliance to begin within 120 days of the initial audit report. The Commission should also determine what penalties or sanctions apply if the auditing problems or irregularities are not corrected in a timely fashion. Without the ability to quickly enforce compliance with accounting safeguards, the safeguards set forth in Section 272 really provide no protection against cross subsidization or discriminatory treatment by SWBT.

VI. CONCLUSION

22. Effective accounting safeguards must be in place to ensure that there is no cross-subsidization of SWBT's nonregulated affiliate by its regulated customers and that SWBT does not unfairly discriminate against its competitors. SWBT has the burden of establishing Section 272 compliance through tangible evidence rather than just a pledge to comply at some future point in time. Further, the Commission should impose certain reasonable accounting safeguards

in addition to those safeguards established in the FCC's Accounting Safeguards Order. SWBT's long distance affiliate should be required to issue publicly available quarterly financial reports and have annual audits, starting with an opening audit at the beginning of its first year of operation. Finally, the Commission should adopt procedures for use in the event irregularities are discovered in the audit. This concludes my statement.

VERIFICATION

STATE OF TEXAS)
)
COUNTY OF Travis)

I, DENISE CROMBIE, of lawful age, being first duly sworn, now state: that I am authorized to provide the foregoing statement on behalf of AT&T; that I have read the foregoing statement; and the information contained in the foregoing statement is true and correct to the best of my knowledge and belief.

C. A. BAUER
NOTARY PUBLIC
STATE OF TEXAS
EXPIRES
3-22-2000

Denise Crombie
DENISE CROMBIE
AT&T
Area Regulatory Chief Financial Officer (CFO) - Southwest Region

SUBSCRIBED AND SWORN TO BEFORE ME this 6th day of March, 1997.

C A Bauer
Notary Public

My Commission Expires:
3/22/2000

45798.1

EXHIBIT DC-1

SUMMARY OF THE SAFEGUARDS FOR SEPARATE AFFILIATES ADDRESSED IN SECTION 272 OF THE FTA

Exhibit DC-1

Section 272(a) requires that:

a. A Bell operating company (including an affiliate) which is a local exchange carrier that is subject to Section 251(c) may not provide any of the following services unless it provides that service through one or more affiliates that are separate from any operating company that is subject to the requirements of Section 251(c) and meet the requirements of Section 272(b). (Referred to as Section 272 affiliate)

- manufacturing activities (as defined in Section 273(H));
- origination of interLATA telecommunications services other than incidental interLATA services as defined elsewhere in the Act, out-of-region services and previously authorized activities, all of which are detailed in Section 271; or
- interLATA information services other than electronic publishing and alarm monitoring services.

b. Section 272(b) requires the Section 272 affiliate:

- shall operate independently from Bell operating company, 47 U.S.C. § 272(b)(1);
- shall maintain its own set of separate books, records, and accounts, 47 U.S.C. § 272(b)(2);
- shall have separate officers, directors, and employees from the BOC of which it is an affiliate, 47 U.S.C. § 272(b)(3);
- may not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the BOC, 47 U.S.C. § 272(b)(4); and
- shall conduct all transactions with the assets of the BOC of which it is an affiliate on an arm's length basis with any such transactions reduced to writing and available for public inspection, 47 U.S.C. § 272(b)(5).

c. In dealings with its affiliate, the BOC:

- may not discriminate between that company or affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of services, 47 U.S.C. § 272(c)(1); and